

State Dept. review completed.

LBJ Library
2313 Red River Street
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May 14, 1981

Dear Al:

The item in the current Newsweek about the October Mexico Summit prods me to write this letter, which I was inclined to do in any case.

The Summit will be exceedingly important for President Reagan as a measure of the breadth of his statesmanship. Whatever the administration thinks now, the dynamics of the affair will push him towards some positive proposal as it pushed Eisenhower towards Open Skies at Geneva in 1955 against the cautious, negative view of the established bureaucracy. (I've just written an account of that affair which I'll send you if you'd like to read it.) In short, telling the developing world to rely on private investment will not suffice for the world's leader; and this will become increasingly clear as the occasion approaches.

One narrow reason why the President will be pushed towards a positive stance is that, inevitably, the administration will have to organize some inter-governmental aid program for Central America and the Caribbean in addition to whatever private capital flows can do. And, I suspect, events will push us in that direction on a broader front in Latin America, perhaps after the Summit.

On the other hand, with expenditure cuts at home and a stance that maximizes the role of private enterprise (with which I agree), a positive stance at the Summit cannot be a simple unilateral Marshall Plan or Alliance for Progress offer.

I believe an appropriate, realistic reconciliation of these imperatives is the following nine-point stance at the Summit.

1. The President recognizes the pressures now slowing economic and social progress in large parts of the developing regions and believes the advanced industrial countries and the developing countries should co-operate closely in relieving those pressures, thus permitting growth and progress to proceed rapidly. This requires that we identify the key problems impeding growth and act strongly in concert to deal with them.

2. The key problems impeding growth in the developing regions are: high oil import prices, rising outlays for food imports, and continued stagflation in the advanced industrial countries. The overriding common tasks for the next generation in the developing regions are to build up new energy supplies in substitution for imported oil, to use energy more efficiently, and to expand agricultural production to meet the inescapable surge of population increase in the developing regions. These do not exhaust the problems the developing regions confront but they are fundamental.

3. The critical decisions in dealing with energy and agriculture must be made by the developing countries themselves: to increase their own efforts in energy production, energy efficiency, and agriculture. Without increased allocations of their domestic resources to these tasks and wise policies which stimulate domestic efforts, no amount of external assistance can be effective.

4. A great deal of external assistance can and should take the form of increased flows of private capital. Here serious efforts should be undertaken to reconcile the legitimate and fundamental interests of the capital importing nations and those of private investors from abroad. The bilateral experience of a good many developing nations demonstrates this reconciliation is possible and of mutual interest.

5. So far as aid from official sources is concerned, the World Bank and the regional development banks ought to enlarge their resources and concentrate them in support of national efforts to enlarge energy production, increase energy efficiency, and to accelerate the increase in agricultural production. The United States is prepared to play an appropriate, equitable role in such a global, multilateral effort if others take the same view.

6. The implementation of such efforts should, in substantial part, be conducted regionally: in the Western Hemisphere, the Pacific Basin, and in Africa. The global institutions (e.g., World Bank, FAO) would work with the regional banks and other regional institutions where they exist or are created.

7. If a substantial global consensus emerges on these matters, the United States would be prepared to gear its national programs of economic assistance to the agreed priorities.

8. Conscious that certain urgent economic problems exist, notably, but not exclusively, among small nations, we are prepared to play an appropriate, equitable role in meeting such needs on a multilateral basis, buying time for long run solutions to be developed.

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9. The combination of low growth rates and high inflation rates in the advanced industrial world has adversely affected the developing regions by reducing their capacity to earn foreign exchange. One of the major responsibilities of the advanced industrial countries to the world community as well as to their own citizens is to reconcile control over inflation with rapid, steady growth. We in the United States are making such an effort at reconciliation.

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Notes: A. Leaving aside possible additional contributions to the World Bank and regional bank soft loan windows, the only budgetary commitment implied in this stance is our share in helping small countries in distress; e.g., in Central America and the Caribbean. We shall, in any case, have to do this kind of thing. By dramatizing the issue at the Summit, we may be able to generate more contributors, get more out of Japan, etc.

B. If we decide to go some such route in Mexico, we should carefully concert in advance not only with the advanced industrial countries but also with the PRC, Brazil, Mexico, and others.

C. The OECD report summarized in the March 1981 OECD Observer (pp. 12-15) indicates the legitimacy of the focus on energy as well as the correctness of introducing paragraph 9, above, on U.S. domestic policy.

D. I have left out any explicit references to the NIEO global negotiations. President Reagan could either ignore them or say we are prepared to continue that dialogue, despite its evident sterility thus far; but its existence should not prevent us from getting on with urgent North-South business on a regional as well as a global basis.

E. Congressional consultations should be undertaken before the Summit, as before the Hemispheric Summit in 1967.

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I hope these reflections are of some use.

Yours,

W. W. Rostow

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